



**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

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August 16, 2012

TO: Supervisor Zev Yaroslavsky, Chairman  
Supervisor Gloria Molina  
Supervisor Mark Ridley-Thomas  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe  
Auditor-Controller

A handwritten signature in blue ink, reading "Wendy L. Watanabe", is written over the printed name and title.

SUBJECT: **AIDS HEALTHCARE FOUNDATION, INC. – A DEPARTMENT OF  
PUBLIC HEALTH HIV/AIDS CARE AND PREVENTION SERVICE  
CONTRACT PROVIDER**

We completed a fiscal contract compliance review of AIDS Healthcare Foundation, Inc. (AHF or Agency). The County Department of Public Health's (DPH) Division of HIV and STD Programs (DHSP) contracts with AHF to provide HIV/AIDS medical outpatient, medical specialty, mental health psychotherapy and psychiatry, treatment education, advancing HIV testing, and health education/risk reduction outreach services. Our review covered a sample of transactions from Fiscal Years (FY) 2007-08 and 2008-09.

Our review was intended to determine whether AHF provided the services to eligible participants, and spent funds in accordance with the County contract. We also evaluated the adequacy of AHF's accounting records, internal controls, and compliance with the contracts and other applicable guidelines.

At the time of our review, AHF had six contracts with DPH DHSP. DPH paid AHF a total of \$8,523,261 from January 2008 to March 2009 under a combination of cost-reimbursement contracts and fixed-fee contracts, depending on the type of service. AHF is located in the Third District.

### **Results of Review**

For the medical outpatient program, AHF did not track its expenditures for the DHSP contract, and did not allocate shared program expenditures between DHSP-responsible patients and other patients. As a result, AHF charged DHSP for costs that should have been allocated to non-DHSP patients, whose services were funded by Medi-Cal, MediCare, private insurance, other grants, and patient service fees. In addition, the Agency billed DHSP for some undocumented and unallowable expenditures. Specifically, AHF:

- Did not allocate their costs for medical outpatient services between DHSP-responsible patients and other patients. Instead, AHF billed DHSP the budgeted amounts for most costs. Based on the percentage of DHSP-responsible patients to total AHF patients (64%), AHF overbilled DHSP by \$1,731,175.
- Charged DHSP \$12,763 for unallowable earthquake and flood insurance costs that were not included in the contract budget.
- Charged DHSP \$8,501 for unsupported expenditures.

The details of our review, along with recommendations for corrective action, are attached.

### **Review of Report**

We discussed our report with AHF and DHSP on July 12, 2012. AHF did not provide a written response within 30 days as requested. AHF indicated that they will submit their response directly to the Board of Supervisors.

We thank AHF for their cooperation and assistance during this review. Please call me if you have any questions, or your staff may contact Don Chadwick at (213) 253-0301.

WLW:JET:JLS:DC:EB

#### **Attachments**

- c: William T Fujioka, Chief Executive Officer  
Jonathan E. Fielding, M.D., Director, Department of Public Health  
Michael Weinstein, President, AIDS Healthcare Foundation, Inc.  
Public Information Office  
Audit Committee

**AIDS HEALTHCARE FOUNDATION, INC.  
HIV/AIDS CARE AND PREVENTION SERVICES  
FISCAL YEAR 2007-08 AND 2008-09**

**BACKGROUND**

The Department of Public Health's (DPH) Division of HIV and STD Programs (DHSP) contracts with AIDS Healthcare Foundation, Inc. (AHF/Agency) to provide HIV/AIDS medical outpatient, medical specialty, mental health psychotherapy and psychiatry, treatment education, advancing HIV testing, and health education/risk reduction outreach services.

The purpose of our review was to determine if AHF appropriately spent funds in accordance with the County contracts. We also evaluated the adequacy of AHF's accounting records, internal controls, and compliance with the contract and applicable federal and State fiscal guidelines governing the Ryan White Comprehensive AIDS Resource Emergency Act. In addition, we determined whether the Agency provided services to eligible clients/patients.

**ELIGIBILITY**

**Objective**

Determine whether AHF provided services to individuals who met DHSP eligibility requirements.

**Verification**

We selected 29 program clients/patients who received services from March 2008 to March 2009, and reviewed documentation in the case files to verify the client/patients' eligibility for DHSP services.

**Results**

AHF maintained appropriate documentation to support the participants' eligibility for program services.

**Recommendation**

**None.**

**CASH/REVENUE**

**Objective**

Determine whether DHSP payments were properly recorded in the Agency's records, and deposited timely into the Agency's bank account. Determine whether AHF had adequate controls over cash and petty cash.

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**Verification**

We interviewed Agency personnel and reviewed their financial records. We also reviewed the Agency's bank reconciliations for February 2009.

**Results**

AHF appropriately recorded and deposited DHSP payments into the Agency's bank account. AHF also completed monthly bank reconciliations appropriately.

**Recommendation**

None.

**COST ALLOCATION PLAN****Objective**

Determine whether AHF's medical outpatient contract Cost Allocation Plan (Plan) was prepared in compliance with the contract, and whether the Agency used the Plan to appropriately allocate shared expenditures.

**Verification**

We interviewed AHF management, and reviewed a sample of expenditures incurred by the Agency between May 2008 and February 2009, to determine if the expenditures were properly allocated to the DHSP program.

**Results**

AHF did not have a written Cost Allocation Plan for the medical outpatient contract. In addition, AHF did not track most expenditures related to the DHSP contract. Instead, AHF billed DHSP the budgeted amounts for most costs. As a result, AHF charged DHSP for shared program expenditures that should have been allocated to non-DHSP patients, whose services were paid for by Medi-Cal, MediCare, other third-party coverage, or patient fees. AHF management indicated that revenue from other payers was used to offset the Agency's non-billable costs.

We reviewed AHF's database of all patient/client outpatient medical visits from March 1, 2008 to February 28, 2009, and determined the percentage of DHSP-responsible patients and other patients. We then applied the percentage of DHSP-responsible patients (64%) to each of AHF's reported costs. As indicated in Exhibit 1, based on the actual percentage of DHSP-responsible patients, AHF billed DHSP \$1,731,175 for costs that should have been allocated to non-DHSP patients. AHF's medical outpatient contract was \$6,933,652.

Because AHF has continued to charge DHSP for costs for medical outpatient services that should have been allocated to non-DHSP patients, AHF needs to work with DPH to determine the amount of overbillings for Fiscal Years (FY) 2009-10, 2010-11, and 2011-12.

### **Recommendations**

#### **AHF management:**

- 1. Repay DPH \$1,731,175 in overbillings.**
- 2. Work with DPH to determine the amount of overbillings for FYs 2009-10, 2010-11, and 2011-12.**
- 3. Develop and implement a Cost Allocation Plan as required by the contract, and allocate costs on a monthly basis in accordance with the Plan.**
- 4. Establish separate accounts to identify expenditures by payer (e.g., DHSP, Medi-Cal, Medicare, private insurance, etc.) where feasible.**

### **EXPENDITURES**

#### **Objective**

Determine whether expenditures billed to DHSP were allowable under the County contracts, properly documented, and accurately billed to the programs.

#### **Verification**

We interviewed Agency personnel, reviewed financial records, and reviewed documentation for 40 non-payroll expenditure transactions charged to DHSP from April 2008 to February 2009, totaling \$301,105.

#### **Results**

Overall, AHF's expenditures were properly documented. However, as discussed earlier, AHF billed DHSP for medical outpatient service costs that should have been allocated to non-DHSP patients. In addition, AHF billed DHSP \$12,763 for earthquake and flood insurance costs that were not included in AHF's approved contract budget. As a result, the \$12,763 was unallowable, as indicated in Exhibit 2.

### **Recommendations**

#### **See Recommendations 2 and 3.**

- 5. AHF management repay DPH \$12,763 for the unallowable expenditures.**

**FIXED ASSETS AND EQUIPMENT****Objective**

Determine whether the Agency's fixed assets and equipment purchased with DHSP funds are used for the DHSP programs and are safeguarded.

We did not perform testwork in this section because AHF did not use DHSP funds to purchase fixed assets.

**Recommendation**

None.

**PAYROLL AND PERSONNEL****Objective**

Determine whether payroll expenditures were appropriately charged to the DHSP programs. In addition, determine whether personnel files are maintained as required.

**Verification**

We traced payroll expenditures for 27 employees, totaling \$166,879, to the payroll records for January 2009. We also reviewed the employees' personnel files.

**Results**

AHF maintained the required records in the employees' personnel files. However, as previously indicated, the Agency billed DHSP for most of their medical outpatient program expenditures, including payroll, even though the program also served non-DHSP clients.

**Recommendation**

See Recommendation 2 and 3.

**COST REPORTS****Objective**

Determine whether the Agency's Cost Reports reconciled to the Agency's financial records.

**Verification**

We traced the Agency's general ledger to the Agency's Cost Reports submitted to DHSP for six DHSP contracts reviewed for December 2008 and February 2009.

**Results**

AHF's Cost Reports for four (67%) of the six contracts did not reconcile to the Agency's accounting records. Specifically, the expenditures reported in AHF's Cost Reports for the HIV Advancing Testing, Psychiatry/Psychotherapy Mental Health, and Health Education Risk Reduction contracts included \$8,501 in unsupported costs. The Agency could not explain the reason for the differences. Exhibit 2 lists the unsupported costs by contract.

**Recommendations****AHF management:**

6. Repay DPH \$8,501 or provide documentation to support the expenditures.
7. Ensure that their annual Cost Reports are supported by their accounting records before submitting the Cost Reports to DHSP.

**AIDS HEALTHCARE FOUNDATION**  
**Medical Outpatient Services**  
**H209006-11 Sch 280**  
**March 1, 2008 - February 28, 2009**

Expenditure Item	Budget	General Ledger	Costs for OAPP Clients	Amount Paid	Overpayment/ Unallowable Costs
<b>Salaries &amp; Employee Benefits</b>					
Office Administrator	\$ 167,080	\$ 196,819	\$ 107,619	\$ 167,080	\$ 59,461
Front Office Clerk	\$ 302,920	\$ 645,644	\$ 356,057	\$ 302,920	\$ -
Physician Specialist (Full Time)	\$ 1,523,178	\$ 1,905,043	\$ 1,014,730	\$ 1,523,178	\$ 508,448
Physician Specialist (Part Time)	\$ 185,478	\$ 290,213	\$ 159,382	\$ 185,478	\$ 26,096
Referral Coordinator	\$ 45,597	\$ 111,812	\$ 61,943	\$ 45,597	\$ -
Benefit Counselor	\$ 132,427	\$ 52,671	\$ 74,845	\$ 132,427	\$ 57,582
Licensed Voc Nurse	\$ 146,349	\$ 200,553	\$ 108,005	\$ 146,349	\$ 38,344
Medical Assistant	\$ 300,373	\$ 375,332	\$ 204,695	\$ 300,373	\$ 95,678
Nurse Practitioner	\$ 212,889	\$ 226,579	\$ 124,044	\$ 212,889	\$ 88,845
Registered Nurse /Nurse Mngr	\$ 209,420	\$ 142,840	\$ 132,520	\$ 198,615	\$ 66,095
Employee Benefits	\$ 645,344	\$ 607,500	\$ 326,505	\$ 643,147	\$ 316,642
<b>Operating Expenditures</b>					
Local Staff Travel	\$ 4,850	\$ 23,039	\$ 11,146	\$ 4,850	\$ -
Medical Supplies	\$ 45,000	\$ 50,348	\$ 26,975	\$ 45,000	\$ 18,025
Office Supplies	\$ 43,000	\$ 39,840	\$ 21,224	\$ 43,000	\$ 21,776
Laundry	\$ 2,300	\$ 7,040	\$ 3,882	\$ 2,300	\$ -
Pharmacy	\$ 442,165	\$ 601,486	\$ 601,486	\$ 442,165	\$ -
Equipment Rental	\$ 32,000	\$ 50,899	\$ 26,816	\$ 32,000	\$ 5,184
Insurance- Liability	\$ 30,000	\$ 25,779	\$ 11,028	\$ 25,639	\$ 6,442 (1)
Insurance- Malpractice	\$ 48,000	\$ 49,214	\$ 26,481	\$ 48,000	\$ 21,519
Refuse Services	\$ 16,000	\$ 40,519	\$ 19,651	\$ 16,000	\$ -
Rent/Empl Pkg/CAM Charges	\$ 803,198	\$ 825,579	\$ 440,580	\$ 803,198	\$ 362,616
Telephone	\$ 82,000	\$ 88,460	\$ 43,578	\$ 82,000	\$ 38,422
Utilities	\$ 3,000	\$ 21,836	\$ 10,670	\$ 3,000	\$ -
<b>Consultant/Contractual</b>					
Laboratory/Laboratory Contracted	\$ 1,267,484	\$ 1,438,858	\$ 1,438,858	\$ 1,267,484	\$ -
Outside Contractors - Medical Specialty	\$ 3,600	\$ 15,462	\$ 8,398	\$ 3,600	\$ -
Outside Contractors - Other	\$ 80,000	\$ 232,377	\$ 130,220	\$ 80,000	\$ -
Radiology/Radiology Non Contracted	\$ 160,000	\$ 196,591	\$ 196,462	\$ 160,000	\$ -
<b>Total</b>	<b>\$ 6,933,652</b>	<b>\$ 8,462,333</b>	<b>\$ 5,687,800</b>	<b>\$ 6,916,287</b>	<b>\$ 1,731,175</b>

## Notes:

- (1) The overpayment amount of \$14,611 is reduced by \$8,169 (64% of \$12,763) to reflect the Earthquake and Flood Insurance costs charged to OAPP and identified in the Expenditures section of the report.



**AIDS HEALTHCARE FOUNDATION  
HIV/AIDS PREVENTION AND CARE SERVICES  
FISCAL YEAR 2007-2008 AND 2008-2009**

<b><u>Contract/Program Expenditures</u></b>	<b><u>Unsupported Cost Report Amounts</u></b>	<b><u>Unallowable Expenditures</u></b>
HIV Advancing Testing (H207279)		
Employee Benefits	\$1,120	
Office Supplies	180	
Medical Supplies	693	
Repairs/Maintenance	192	
Subtotal	<u>2,185</u>	<u>--</u>
Psychiatry Mental Health (H209006)		
Employee Benefits	238	
Indirect Cost	426	
Subtotal	<u>664</u>	<u>--</u>
Medical Outpatient (H209006)		
Insurance	--	\$12,763
Health Education/Risk Reduction (H700936)		
Employee Benefits	687	
Subcontractor	3,902	
Travel	314	
Auto Insurance	127	
Subtotal	<u>5,030</u>	<u></u>
Psychotherapy Mental Health (H210814)		
Salaries	<u>622</u>	<u>--</u>
<b>Total</b>	<b>\$8,501</b>	<b>\$12,763</b>